SETTLEMENT TESTIMONY OF

JIMMY E. ADDISON

ON BEHALF OF

SOUTH CAROLINA ELECTRIC & GAS COMPANY

DOCKET NO. 2007-229-E

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. In my testimony, I discuss certain aspects of the settlement agreement (the "Settlement"), entered into by all parties in this proceeding on October 24, 2007. My specific purpose is to explain the terms of the Settlement related to the proposed increase in the Company's retail electric revenue and the Company's allowed Return on Equity, or ROE.

Q. PLEASE PROVIDE A FINANCIAL OVERVIEW OF THE SETTLEMENT.

A. The Settlement provides for an increase in revenues for the Company of $76.9 million or 4.40 % compared to adjusted test year revenues. That increase is 35% less than the $118 million increase sought in the Application in this matter. The settlement also provides for establishment of a ROE of 11% for the Company.

Q. HOW DOES THE SETTLEMENT DEAL WITH FINANCIAL AND ACCOUNTING ADJUSTMENTS?

A. Shortly after the application in this proceeding was filed, ORS began an extensive examination of the books and records of the Company, and a review of other operating and financial data, rate design, cost allocation data and other cost of service information. Other parties to the proceeding also sought information from SCE&G about financial, operational and accounting matters and ORS reviewed the results of their inquiries. The results of ORS's examination and review of other information about the Company are set forth in the pre-filed settlement testimony of ORS witnesses Sharon G. Scott and A. Randy Watts.

In the Settlement, all parties agreed to establish rates based on test period data that includes the accounting and pro-forma adjustments proposed by the ORS. The Company and other parties may disagree with individual adjustments or the basis on which certain adjustments are made. However, viewing the Settlement as a whole, and in the interest of compromise, all Parties have agreed that it is just and reasonable for the Commission to establish rates as filed in the Settlement that are based on the proposed adjustments as found in ORS's settlement testimony.

Q. HOW DOES THE SETTLEMENT DEAL WITH RATE OF RETURN ISSUES?

A. An appropriate rate of return for SCE&G was one of the principal differences in the positions of the Parties at the outset of the settlement negotiations. While there were many differences in how the Parties approached the ROE question, the most significant single difference was the degree to which risks related to the Company's decision to invest in nuclear capacity would be reflected in rates.

The Company filed direct testimony from Mrs. Cannell and from me that discussed the effect of nuclear construction on the risk profile of the Company.

It was our conclusion that markets will look closely at the results in this case, and will expect to see some recognition of the increased risk related to nuclear construction in the Company's ROE, even at this early stage of the nuclear procurement process. We discussed the fact that the Company will be making critical decisions about its nuclear program at a time when the ROE established in this proceeding is likely to be in force. It was and is our opinion that the financial community will analyze the impacts of those decisions in light of the ROE established in this case, particularly since the ROE established in this case may be the ROE used in establishing revised rates under the Base Load Review Act.

Other parties, however, have taken the position that nuclear construction is still far enough in the future that including nuclear construction risks in the rates charged at this time would be inappropriate.

To resolve this issue, the Parties have stipulated to a ROE of 11% and a revenue adjustment of $76.9 million. All other things being equal, a revenue adjustment of $76.9 million would have resulted in a test-period ROE consistent with the ROE the Commission granted in the Company's last electric rate proceeding at a time before SCE&G's nuclear construction plans had been announced, or 10.7%. Presently, the Company believes its risk profile under the current market conditions justifies an allowed ROE of over 11%, but in the spirit of compromise and because it is still in the early stages of its nuclear capacity program, the Company agreed with the parties of record to settle upon 11% to be the currently approved ROE for the Company.

The Company is willing to accept rates set at the previously allowed ROE and the risk of not earning the allowed ROE until a future rate proceeding, because of the value to it and its customers of establishing an allowed ROE that demonstrates to the financial markets that nuclear risks will not be ignored as the Company proceeds with its construction plans. Because the ROE established in this case may be used in calculating rate adjustments in future Base Load Review Act proceedings, SCE&G believes that an allowed ROE which includes preliminary recognition of nuclear risks should provide assurance to the financial community that, at this early stage of the process, SCE&G's plans to finance its additional nuclear construction are based on a sound foundation. In short, the Settlement provides the near-term regulatory framework needed to support future nuclear construction without burdening customers with higher rates at this time.

Q. WHAT DO YOU ASK THE COMMISSION TO DO?

A. I respectfully request that the Commission accept the Settlement as proposed and issue an order incorporating its provisions.

STATE OF SOUTH CAROLINA

BEFORE THE

SOUTH CAROLINA PUBLIC SERVICE COMMISSION

In the Matter of:	**)**	
Application of South Carolina Electric & Gas	**)**	**Docket No. 2007-229-E**
Company for an Adjustment of its	**)**	
Rates and Charges	**)**	

PRE-FILED SETTLEMENT TESTIMONY

OF

DAVID BEARD

ON BEHALF OF THE

SOUTH CAROLINA ENERGY USERS COMMITTEE

October 24, 2007

Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS FOR THE RECORD.

A. My name is David Beard. I am Director of Energy Utilization for Milliken & Company. My business address is 920 Milliken Road, Spartanburg, South Carolina 29304.

Q. WHAT ARE YOUR DUTIES AND RESPONSIBILITIES AT MILLIKEN & COMPANY?

A. I am responsible for the purchase, consumption and conservation of all energy fuels (natural gas, coal, fuel oils, propane, electricity, water, landfill gas) for Milliken worldwide.

Q. PLEASE GIVE THE COMMISSION A BRIEF DESCRIPTION OF YOUR BACKGROUND.

A. I am a native of Hemingway, South Carolina. I received a B.S. in Chemistry from the College of Charleston in Charleston, South Carolina. I joined Milliken & Company in 1975 as a Management Trainee in Barnwell, South Carolina. Since then, I have worked in six different manufacturing plants, with product lines ranging from apparel to automotive fabrics to carpet. My positions have included Process Improvement Manager, Plant Manager, and Director of Manufacturing. In addition, I served as Milliken's Director of Purchasing. I began working with energy related issues in the early 1990's. My responsibilities include corporate oversight of the purchase and conservation of all energy and water consumption. I am a member of the South Carolina Energy Users Committee, Carolina Utility Customer Association, Georgia's Public Utility Rates Committee, and other industry related groups.

Q. ON WHOSE BEHALF ARE YOU PRESENTING TESTIMONY IN THIS PROCEEDING?

A. I am testifying on behalf of the South Carolina Energy Users Committee (SCEUC), an association of manufacturers active in many proceedings before the South Carolina Public Service Commission. SCEUC's members include manufacturers of textiles, automobiles, tires and auto parts, chemicals, paper and paper products. Many of SCEUC's members take service from South Carolina Electric & Gas.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to support the settlement among the parties in this proceeding.

Q. PLEASE SUMMARIZE THE KEY POINTS OF THE SETTLEMENT IN THIS CASE.

A. The settlement in this case is the result of many discussions among the ORS, SCEUC, and SCE&G and the other parties to this proceeding. The primary points of this settlement are as follows:

1. rates be set so as to generate a 10.70% return on equity during the test year;
2. the allowed return on equity as agreed to in this case of 11.0%;
3. the rate changes producing the following revenue changes:

Table 1: Stipulated Revenue Changes by Customer Class

Customer Class	**Revenue Increase (millions)**
Residential	$42.2
Small General Service	$11.9
Medium General Service	$8.4
Large General Service	$12.1
Lighting	$2.3

Q. PLEASE SUMMARIZE WHY THE SETTLEMENT BEFORE THE COMMISSION IS IN THE BEST INTEREST OF SCE&G'S RATEPAYERS.

A. South Carolina is fortunate to have a regulatory environment which balances the interests of its utilities with those of its ratepayers and citizens. This settlement likewise balances the interests between SCE&G and its ratepayers. First, SCE&G will not receive all that it has requested; in fact, the settlement reduces SCE&G's revenue request by approximately $41.2 million. Second, the ratepayers will benefit from a rate design that encourages economic development and job retention, thereby holding down future rate increases for all consumers. Last, the rates settled upon leave SCE&G sufficiently strong to allow it to raise capital to finance new investment.

Q. PLEASE EXPLAIN THE BENEFIT IN SCE&G'S RATE DESIGN.

A. In every electric utility rate case, the utility must undertake and prepare a cost of service study. Here, relying upon methods and principles used by the Public Service Commission for 27 years, SCE&G has undertaken and prepared a summer coincident peak cost-of-service study which was filed in this docket by Mr. John Hendrix as part of his testimony.

SCE&G has historically designed its rates using a summer coincident peak ratio. Since SCE&G builds generating plant to meet the peak demand on its system, which occurs in the summer season, it makes sense to allocate generation investment by the summer coincident peak ratio.

Q. WHAT IS THE BENEFIT IN ALLOCATING GENERATION INVESTMENT BY THE SUMMER COINCIDENT PEAK?

A. The most recent summer is a very vivid example of how a utility must plan to meet its peak needs. As the Commission and all parties in this case are aware, the summer of 2007 was brutally hot. The following article from *The State* on Sept. 1, 2007 sums up this past summer's brutal temperatures.

> Columbia's August cooked up records, whether pan-fried or crockpot-simmered.
>
> The midmonth heat wave produced 14 daily highs of 100 or more, breaking the August record of 12 set in 1900 but short of the all-time record of 17 in July 1993.
>
> For the full month, the average daily temperature of 85.9 smashed the previous August record of 85.1 in 1900 and fell just short of the all-time record 86.2 in July 1993, according to the state climate office. For perspective, the third hottest August in Columbia history was a much cooler 83.8 in 1999.
>
> August 2007 was the hottest month ever in Greenville, with 10 days of 100 degrees or higher and an average daily temperature of 84.6. The previous hottest month for Greenville was July 1993 at 83.2.

SCE&G, and other South Carolina utilities, had to generate enough power to meet the ongoing demands placed on it by the long streak of 90+ degree days. Failure to meet the need for electricity during this long record-setting heat wave would have caused severe hardship for SCE&G, its customers, and the overall economy within the SCE&G territory.

Q. CAN YOU POINT TO ANY RESOURCE WHICH WOULD DEMONSTRATE THAT SCE&G WILL CONTINUE TO BE A SUMMER PEAKING UTILITY?

A. Yes. Below is SCE&G's 2007 Integrated Resource Plan (IRP) which demonstrates that for the next 15 years, the utility's summer peak is expected to outpace its winter peak. As a result, SCE&G must use its summer peak as its benchmark in planning to meet its generation needs in the future.

Table 2: Peak Loads of SCE&G

Year	Summer Peak (MW)	Winter Peak (MW)
2007	4,823	4,322
2008	4,919	4,405
2009	5,012	4,483
2010	5,060	4,523
2011	5,167	4,619
2012	5,269	4,712
2013	5,375	4,810
2014	5,493	4,918
2015	5,615	5,032
2016	5,732	5,144
2017	5,854	5,257
2018	5,976	5,373
2019	6,098	5,491
2020	6,228	5,615
2021	6,355	5,738

Source of data: SCE&G

Q. DOES THE SUMMER COINCIDENT PEAK METHOD FAIRLY REFLECT THE MANNER IN WHICH SCE&G'S CUSTOMERS USE ELECTRICITY?

A. Yes. SCE&G has three major customer classes: residential, commercial, and industrial. SCE&G meets the demands that all these customers place on its system by producing power from a portfolio of generation units. Within this portfolio of generating units, there are three basic types of operating plants: baseload units, which are designed to operate constantly for many hours; intermediate units, which run much less often than baseload units; and peaking units that operate only at times of extreme demand for electricity. When economic conditions are good, industrial consumers use large amounts of electricity at relatively constant levels of consumption. This relatively constant usage of electricity provides the utility with some assurance of the load that it will be expected to meet in any given period. When matched up with the utility's above-mentioned resource mix, an industrial load profile is much more similar to a baseload plant in that its usage of electricity matches the production of electricity from baseload units.

Residential consumers, on the other hand, are very temperature sensitive customers and, as such, usage for this class of customers is much more dynamic than that of industrial consumers. An example can be seen any day when the temperature rises outside of our homes. On hot and humid days, I, like all other residential consumers, turn on my home air conditioner in an effort to cool down and stay comfortable. However, as soon as I turn that switch on, my utility, SCE&G in this case, must respond by operating one of its peak generating units that operates primarily on peak usage days.

As this Commission is well aware, here in South Carolina, we have many hot and humid summer days that require our utilities to operate all of their plants (baseload, intermediate, and peaking) in order to meet the requirements of it customers. In planning to meet its future loads, SCE&G anticipates the times of the year when electric usage will be at its highest. To assist in its planning efforts, SCE&G uses a model called the summer coincident peak (CP) methodology that is, essentially, a forecast of what the utility must provide for generation at the time of its greatest demand in the coming year. In my opinion, since the utility must plan to meet its highest demand in a given year, it is only logical and fair to use the summer CP allocation methodology to assign costs to customer classes in rate cases.

By using a model that accurately portrays the usage of its electric system, rate design analysts can design rates that will send proper pricing signals to all customer classes. Customer reaction to these price signals will ultimately lead to economic efficiency throughout the SCE&G system, thereby holding down future rate increases for all consumers.

Q. DOES SOUTH CAROLINA POLICY RECOGNIZE THE IMPORTANCE OF ALLOCATING ELECTRICITY PRODUCTION COSTS IN THE SAME MANNER AS SCE&G'S COINCIDENT PEAK METHODOLOGY?

A. Yes. In the Base Load Review Act ("BLRA") passed overwhelmingly earlier this year, the South Carolina General Assembly required that variable environmental costs be allocated according to the peak demand imposed by each customer class. S.C. Code Ann. §58-27-865 (A)(1). Revised rates permitted by the BLRA during nuclear plant construction are allocated on the same basis. S.C. Code Ann. §58-33-270(D). The General Assembly has thus determined that allocating these power supply costs according to peak demand is a rational means of allocating costs to encourage economic development and job retention.

Q. PLEASE DISCUSS THE IMPACT OF SOUTH CAROLINA MANUFACTURERS WITH RESPECT TO ECONOMIC DEVELOPMENT AND JOB RETENTION.

A. South Carolina manufacturers employ huge numbers of employees and, in general, pay wages in excess of what employees can earn in service industries. In fact, according to the National Association of Manufacturers, the average annual manufacturing wage in South Carolina was $43,268 in 2007 versus the statewide average annual wage of $34,273.

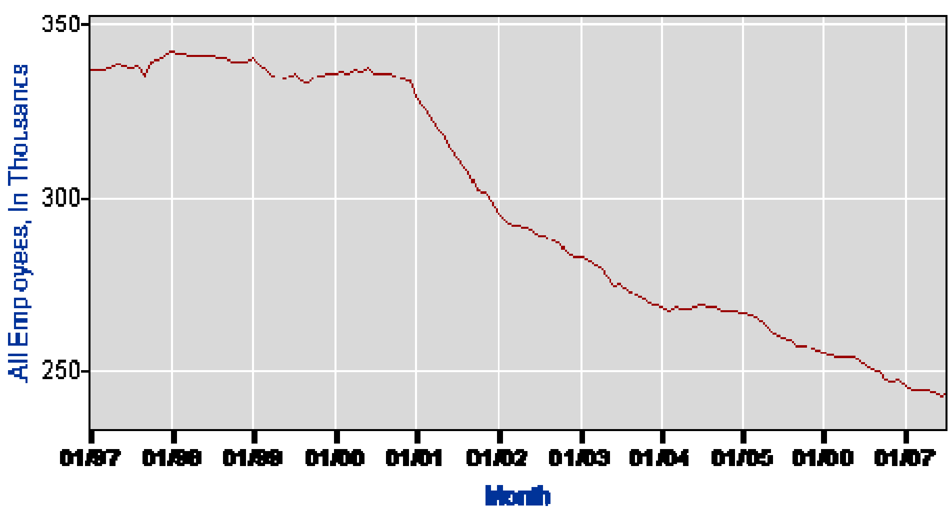
The importance of the manufacturing community to the overall South Carolina economy cannot be understated. For example, in 2006, South Carolina manufacturers contributed $26.3 billion to our state's gross domestic product ("GDP"). With such a large contribution to GDP, it is easy to understand how dependent our state has become on its strong manufacturing base.

Furthermore, as this Commission is aware, there are also numerous ancillary benefits of manufacturing in South Carolina. Soon after a plant announcement is made, contractors, subcontractors, and suppliers typically all swing into action to support the manufacturing facility.

An example of the creation of ancillary jobs by manufacturing can be seen in the BMW automotive plant in Greer. Construction of the plant began in 1992 with the expectation that the plant would provide 2,000 jobs by 2002. The reality was that by 2002, the plant had provided approximately 4,400 jobs. In fact, a University of South Carolina study showed that, for every job at BMW, nearly 3 jobs were created in other areas of the state.

As of June 2007 South Carolina manufacturers employed roughly 243,000 people. Unfortunately, manufacturing employment has dropped sharply from 10 years ago when approximately 340,000 South Carolinians held manufacturing jobs. Please see the graph below showing how South Carolina manufacturing employment has suffered over the past ten years.

South Carolina Manufacturing Employment



Source of graph: U.S. Dept. of Labor, Bureau of Labor Statistics
http://data.bls.gov/servlet/SurveyOutputServlet

The loss of high paying jobs leads directly to the tragic disruption in the lives of valued and productive employees. Furthermore, if the manufacturing economy in South Carolina continues to decline, state revenues from corporate income taxes will also fall thereby putting upward pressure to increase personal income tax rates. State resources will often strain from the effect of massive layoffs.

Similarly, the loss of a local manufacturing facility will also put pressure on local governments. When a large taxpayer, such as a manufacturing facility, closes its plant, local governments are often left with huge holes in their budgets that stem from the loss of property taxes from the shuttered manufacturing facility. These losses must be made up from alternate resources, one of which is an increase in local taxation.

The loss of manufacturing facilities in South Carolina has a much wider impact than is readily apparent. When one considers the ancillary effects of a lost manufacturing facility, it is easy to see that consumers throughout South Carolina suffer when an industrial plant closes.

Q. HOW HAVE SCE&G's INDUSTRIAL SALES CHANGED SINCE 2000?

A. The graph below is an illustration of the Company's industrial sales over the past 6 years.

In his pre-filed direct testimony, Mr. Marsh states that the Company has added 56,000 customers over the past three years. SCE&G advises that of these 56,000 new customers, 49,131 were residential, 6,504 were commercial but the industrial class actually lost 11 customers.

If the trend from 2004 through 2006 continues, SCE&G will see declining revenues from its industrial customers. SCE&G's remaining customers will have to take up the slack and pay even higher electric rates.

Q. HAVE OTHER SOUTH CAROLINA UTILITIES RECOGNIZED THE NEED FOR ELECTRIC RATES THAT ENCOURAGE ECONOMIC DEVELOPMENT?

A. Yes. In its 2007 North Carolina rate case, Duke Energy proposed to set rates that encourage economic development and retain manufacturing jobs. In fact, Duke proposed a rate design which reduced its rates on its industrial customers. In her pre-filed testimony, Duke President Ellen Ruff made the following statement:

> We believe strongly that a healthy industrial base is good for all of our customers as well. A healthy and broad industrial customer base enables us to spread our fixed costs over a broader group of customers, thereby ensuring that prices are lower, on average, for all customers.
>
> Also, as new manufacturing businesses are established and existing manufacturing businesses expand, they typically create a significant multiplier effect that directly and indirectly produces additional jobs and investments.
> Page 21, line 20 – Page 22, line 3.

It is clear that Duke Energy recognizes the need to impose energy costs on its industrial base in a manner which encourages economic development.

Q. PLEASE EXPLAIN HOW THE RATE DESIGN AS AGREED UPON IN THIS CASE WILL ENCOURAGE ECONOMIC DEVELOPMENT AND JOB RETENTION.

A. If industry is to continue to drive our economy and enhance the quality of life for South Carolinians, we must all work to carefully manage the costs imposed on us by rising electric rates. The rate design employs time tested measures which fairly allocate costs in a manner that encourages efficient use of the utility's system and in a way that best enables a consumer to control its energy costs.

It is important to note that we as manufacturers compete in more ways than is generally understood. For example, we compete internally within our own companies with plant versus plant competition. If a plant in South Carolina can produce a product at a lower cost than a sister plant in Georgia, the likelihood of the South Carolina plant retaining that product line is enhanced if and when economic conditions turn negative. Similarly, our plants in South Carolina also compete with plants in other states, such as Georgia and North Carolina, where electric costs can be different than those found here in South Carolina. Lastly, our South Carolina plants must also compete against plants located in other parts of the world where operating costs are sometimes sharply lower than what we incur here in the southeast.

The design of electric rates that encourage wise investment and operating decisions will help all consumers to better recognize and react to price signals and would permit South Carolina manufacturers to minimize their energy costs and compete as efficiently as possible.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes, it does.

THE OFFICE OF REGULATORY STAFF

SETTLEMENT TESTIMONY

OF

A. RANDY WATTS

October 24, 2007

DOCKET NO. 2007-229-E

South Carolina Electric & Gas Company
Application for Increases in the Company’s Electric Rates and Charges

SETTLEMENT TESTIMONY OF A. RANDY WATTS

FOR

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2007-229-E

IN RE: APPLICATION OF SOUTH CAROLINA ELECTRIC & GAS COMPANY FOR INCREASES IN ELECTRIC RATES AND CHARGES

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Randy Watts. My business address is 1441 Main Street, Suite 300, Columbia, South Carolina 29201. I am employed by the State of South Carolina as Program Manager of the Electric Department for the Office of Regulatory Staff ("ORS").

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science Degree in Electrical Engineering from the University of South Carolina in Columbia in 1976. I was employed at that time by the Public Service Commission of South Carolina ("Commission") as a Utilities Engineer in the Electric Department and was promoted to Chief of the Electric Department in August 1981. Subsequent to internal Commission restructuring, my position was redesignated Chief of Electric in October 1999. I remained in that role until transferring to my current position with ORS in January 2005. I have testified on numerous occasions before the Commission in conjunction with fuel clause, complaint, territorial assignment, Siting Act and general rate proceedings.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to provide support for the Settlement Agreement reached in this proceeding to include a summary of the Electric Department's examination of South Carolina Electric & Gas Company's ("the Company" or "SCE&G") Application for a general increase in its electric rates and charges.

Q. MR. WATTS, PLEASE DISCUSS THE PROPOSED RATE DESIGN OF THE SETTLEMENT TARIFFS.

A. The basic rate designs of the proposed tariffs remain unchanged from the previously approved structure. The rates continue to incorporate simplistic design while reflecting cost causation in the application of the revenue requirements as demonstrated in the Cost of Service Study. ORS supports the continuation of the structure of the Company's rate designs proposed in the Settlement Agreement.

Expanded language has been included in the availability section of Rate 23, Industrial Power Service, to specifically include mining operations. Prior Company practice has been to include these type operations and this added wording clarifies the intent. The settlement rates also remove two mercury vapor lighting fixtures from Lighting Rates 17, 26 and Residential Subdivision Street Lighting. This change is necessitated by the Energy Policy Act of 2005 which banned the manufacture or import of mercury vapor ballasts after January 1, 2008. In addition, the lighting tariffs include clarified language and expanded availability along with offering more lighting fixtures. ORS reviewed these modifications and concluded they are reasonable and appropriate.

The Company proposed several minor modifications to its General Terms and Conditions for aesthetics, grammatical corrections, clarifications or acknowledgement of current practices. ORS reviewed these changes and found them to be reasonable.

Q. PLEASE EXPLAIN ORS' REVIEW OF THE COST OF SERVICE STUDY.

A. The Company's Cost of Service Study is based on the Summer Four Hour Coincident Peak Demand, which it has utilized since 1976 and which has been consistently approved by this Commission. The Cost of Service Study allocates or assigns responsibility for the revenues, expenses and rate base items among the individual classes of customers. The cost responsibility for these items is allocated to the class of customer that caused the cost to be incurred. This is commonly referred to as the "cost causation" allocation methodology.

ORS concluded that the methodology applied in constructing the Company's Cost of Service Study continues to provide reasonable apportionment and allocation of the Company's revenues, operating expenses and rate base items.

The Company used the same methodology in calculating customer growth as utilized in its previous rate case filing which was approved by the Commission. ORS concurs with this method of calculating customer growth, and the Electric Department provided the appropriate factors to the Audit Department at ORS for inclusion in its analysis.

Q. PLEASE EXPLAIN THE ADJUSTMENTS REVIEWED BY THE ORS ELECTRIC DEPARTMENT.

A. The Company proposed an adjustment to total electric revenues to remove $1,000,495 from the test year associated with a power marketer contract with Morgan Stanley, which expired during the test period. Since this contract ended and was not renewed the revenues should be eliminated. This is reflected in ORS Adjustment #1 which includes $944,889 allocated to retail electric.

ORS Adjustment #8 reflects the annualizing of the VC Summer nuclear plant refueling outage expense associated with Cycle 17 refueling scheduled to occur in 2008. The Company makes accruals based on cost estimates that are trued up to actual. We reviewed these cost estimates totaling $28,625,000 and found them to be reasonable for this refueling outage. It should be noted that SCE&G is responsible for only two-thirds of these expenses which is reflective of its ownership portion of the plant.

ORS Adjustment #17 pertains to a proposal by SCE&G for a new depreciation rate for the Company's account for meters. Due to shorter average service lives associated with increased use of automatic meter reading technology, a depreciation study was performed specifically for Account 370, Meters. The analysis resulted in an increase in the depreciation rate for this category from 1.83% to 2.46%. ORS takes no exception to the Company's request for approval of this updated depreciation rate of 2.46% for the Meters Account.

These adjustments were provided to the ORS Audit Department and are shown in the exhibits of ORS Audit witness Sharon Scott. These adjustments along with the others shown on the attachments to ORS witness Scott's testimony have been accepted as fair and reasonable by all parties in this proceeding.

The revenue increase in the Settlement Agreement maintains the relative relationship of the classes as established by the Cost of Service Study.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

THE OFFICE OF REGULATORY STAFF

SETTLEMENT TESTIMONY

OF

SHARON G. SCOTT

October 24, 2007

DOCKET NO. 2007-229-E

South Carolina Electric & Gas Company Application for Increases in the Company's Electric Rates and Charges

SETTLEMENT TESTIMONY OF SHARON G. SCOTT

FOR

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2007-229-E

IN RE: APPLICATION OF SOUTH CAROLINA ELECTRIC & GAS COMPANY FOR INCREASES IN ELECTRIC RATES AND CHARGES

Q. MS. SCOTT, WOULD YOU PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION?

A. My name is Sharon G. Scott. My business address is 1441 Main Street, Suite 300, Columbia, South Carolina, 29201. I am employed by the Office of Regulatory Staff ("ORS") as an Audit Manager.

Q. WOULD YOU PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR BUSINESS EXPERIENCE?

A. I received a B.S. Degree in Business Administration, with a major in Accounting from the University of South Carolina in May 1983 and a MBA degree from Webster University in May 2000. I began my employment with the South Carolina Public Service Commission ("Commission") in July 1983 and during my employment I participated in various cases involving electric, gas, telephone, water and wastewater utilities. In January 2005, I began my employment with the ORS.

Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY IN THIS PROCEEDING?

A. The purpose of my settlement testimony is to set forth the adjustments agreed upon in the Settlement Agreement ("Settlement Agreement") between ORS, Frank Knapp, Jr., the Federal Executive Agencies ("FEA"), Wal-Mart Stores East, LP ("Wal-Mart"), the Kroger Company ("Kroger"), the South Carolina Energy Users Committee ("SCEUC) and South Carolina Electric and Gas Company ("SCE&G" or "the Company") collectively referred to as the "Parties" in this Docket. These findings and recommendations are shown in detail in the audit report with attached exhibits.

Q. PLEASE IDENTIFY THE SETTLEMENT EXHIBITS ATTACHED TO YOUR PREFILED TESTIMONY.

A. I have attached the Report of the Audit Department ("Audit Report") related to the South Carolina Electric & Gas Company, Docket No. 2007-229-E, Application for Increase in Electric Rates and Charges. The contents of the Audit Report were prepared by me or under my direction and supervision in compliance with recognized accounting and regulatory procedures for electric utility rate cases and reflect the adjustments per the Settlement Agreement.

Q. PLEASE EXPLAIN THE CONTENTS OF THE AUDIT REPORT?

A. As outlined in the Index of the Audit Report, the first 4 pages contain the report analysis. The remaining pages consist of settlement exhibits that were prepared to show various aspects of the Company's operations and financial position. The majority of my settlement testimony will refer to Settlement Audit Exhibit SGS-1 titled as Operating Experience, Rate Base and Rate of Return – Total and Retail Electric. These exhibits were prepared in compliance with ORS's standard procedures for electric utility rate applications.

Q. WOULD YOU EXPLAIN THE FORMAT OF SETTLEMENT AUDIT EXHIBIT SGS-1?

A. Yes. Note, that for presentation purposes, this settlement testimony, the Audit Report and all exhibits report dollar amounts in thousands (000's omitted). Audit Settlement Exhibit SGS-1 shows SCE&G's operating experience, rate base, and rate of return for the test year ended March 31, 2007. The exhibit's format is designed to reflect Per Books figures and ORS Proposed Accounting & Pro forma Adjustments, per Settlement Agreement, necessary to normalize the results of SCE&G's test year operations.

Column (1) shows the Total Electric Operations, Per Regulatory Books, for the test year ended March 31, 2007.

Column (2) shows the proposed accounting and pro forma adjustments, per settlement, designed to normalize Total Electric Operations presented in column (1).

Column (3) shows the Company's Total Electric Operations after accounting and pro forma adjustments, per settlement, by adding columns (1) and (2).

Column (4) shows the Company's allocation of the Total Electric Operations, Per Books, to the Company's Retail Electric Operations.

Column (5) shows the allocation of the Total Electric settlement accounting and pro forma adjustments to Retail Operations.

Column (6) shows the Company's Retail Operations after settlement accounting and pro forma adjustments by adding columns (4) and (5).

Column (7) shows the computation of the Settlement Proposed Increase, along with resultant tax and customer growth adjustments for Retail Operations.

Column (8) details the results of Retail Operations for the settlement increase proposed by the Parties by adding columns (6) and (7).

Q. WOULD YOU PLEASE ELABORATE ON THE CALCULATIONS IN SETTLEMENT AUDIT EXHIBIT SGS-1?

A. Yes. All book balances were verified to detailed accounting records of the Company during the ORS examination.

As per Column (1), using Total Electric Operations per company's regulatory books for the test year ended March 31, 2007, net income for return of $299,408 and total rate base of $4,161,728, the computed rate of return was 7.19%. The proposed accounting and pro forma adjustments, agreed upon by the Parties, are shown in column (2) for the Total Electric Operations. Column (3) presents the total after agreed upon accounting and pro forma adjustments for Total Electric Operations. Using the total income for return of $299,150 and total rate base of $4,106,477, the computed rate of return was 7.28%.

Column (4) reflects the Company's allocation of the Total Electric booked amounts to Retail Operations. Using per book Retail Operations, total income for return of $292,321 and total rate base of $3,997,379, the computed rate of return was 7.31%. The resultant return on common equity was 8.25%. The settlement accounting and pro forma adjustments were allocated to the Company's Retail Operations in column (5). Column (6) presents ORS's calculation of Retail Operations after accounting and pro forma adjustments per Settlement Agreement. Using net income for return of $292,169 and total rate base of $3,943,942, a rate of return of 7.41% was computed. The resultant return on common equity was 8.43%. The proposed retail revenue increase of $76,924, per Settlement Agreement, is presented in column (7) along with the related adjustments for taxes and customer growth. Lastly, column (8) presents retail operations after the Settlement Agreement proposed increase, which results in total income for return of $339,969, a rate base of $3,943,942, yielding a rate of return of 8.62% and a return on common equity of 10.70%. Pursuant to the Settlement Agreement, a return on equity ("ROE") of 11% is agreed by the parties to be fair and reasonable and is to be used for all purposes other than setting rates in this docket.

Q. WOULD YOU PLEASE EXPLAIN THE SETTLEMENT ADJUSTMENTS IN AUDIT EXHIBIT SGS – 2?

A. Yes, the explanations of Accounting and Pro forma Adjustments are listed separately as 'SCE&G Total Electric', 'Settlement Total Electric' and 'Settlement Retail Operations'. The ORS Electric Department provided the retail allocated amounts which were agreed upon per Settlement Agreement. The adjustments are as follows:

Operating Revenue Adjustments:

Adjustment #1 - Non-recurring Revenue - The Parties agreed to remove revenue for the termination of a Morgan Stanley contract. Details of this adjustment are discussed by the ORS Electric Department witness, Randy Watts. The total adjustment amounted to ($1,000). The retail allocated amount is ($945).

Operating and Maintenance Expense – Fuel & Other:

Adjustment #2A - Annualized Wages and Benefits – Per settlement, the Parties agree to annualize salary expense as of the end of the test year based on salary levels in effect during March 2007. Corresponding adjustments were made to employee benefit costs which include long and short-term disability and 401K expenditures. ORS verified total annualized payroll expenses of $142,260 less the actual payroll expenses for the test period of $138,258, resulting in an adjustment of $4,002. For Employee Benefits Expenses, ORS verified the benefits payroll percentage of 7.77% which is the percentage of SCANA benefits to total SCANA payroll. This percentage was applied to the payroll adjustment of $4,002 for a total benefits adjustment of $311 for the test year. The Parties agreed on the total adjustment for salaries and benefits of $4,313. The retail allocated amount is $4,166.

Adjustment #2B - Employee & Officer Bonuses – The Parties agreed to remove fifty percent (50%) of expenses for employee, short-term, and long-term bonuses. This adjustment allows the sharing of per book bonuses between the ratepayer and the stockholder. ORS verified the bonuses booked of $3,564 and the Parties concur to remove ($1,782) from test year expenses. The retail allocated amount is ($1,715).

Adjustment #3A – Annualized Pension Income – Per settlement, the Parties agree to reduce Operation and Maintenance ("O&M") expenses to reflect an increase in the income derived from the Company's pension plan during the test year. The income computation was based on the Company's actuarial study. ORS verified total pension income of ($4,025) and per book pension income of ($2,554) and the Parties concur with the adjustment for pension income of ($1,471). The retail allocated amount is ($1,416).

Adjustment #3B – Other Post Employment Benefits ("OPEBs") – The Parties agreed to annualize and reduce the Electric O&M portion of the Company's expenses for OPEBs to match the amounts required to be accrued for these future expenses under the Company's actuarial study. ORS verified the annualized OPEBs expense of $9,523 and the Company's per book amount of $9,579 and the Parties agreed on the adjustment of ($56). The retail allocated amount is ($54). In addition, this adjustment in OPEBs expense required an agreed upon adjustment to rate base of $35 shown in Adjustment # 44.

Adjustment #4 – Remove Employee Club O & M Expenses – Per settlement, the Parties consent to remove costs related to Employee Clubs owned by the Company. These clubs, consisting of The Pine Island Club, The Sand Dunes Club, and The Misty Lake Club, are operated by the Company and used by the employees. ORS verified employee club expenses to the Company's books and records and the Parties concur with the adjustment to reduce O&M Expenses by ($348). The retail allocated amount is ($335).

Adjustment #5 – Remove Reagent Expenses - The Parties agree to decrease O&M expenses for ammonia and lime costs that will be included in the fuel adjustment clause according to the new Base Load Review Act. The Act states that "Fuel cost also shall include the following variable environmental costs: (a) the cost of ammonia, lime, limestone, urea, dibasic acid, and catalysts consumed in reducing or treating emissions…" ORS verified the per book amounts for removal and the Parties agree to the adjustment of ($4,820). The retail allocated amount is ($4,552). Included in the adjustment is ($809) related to Williams Station operations.

Adjustment #6 – Federal Energy Regulatory Commission ("FERC") Other Federal Agency Fees - The Parties agreed to increase regulatory commission expenses to adjust for a one-time credit to the FERC Other Federal Agency Fees accrual and to adjust the account to its normal level. ORS verified these fees to current invoiced amounts and the Parties concur with the normalized test year level of $1,125. ORS verified the per book amount of ($663) which reflects a one-time credit adjustment. Per settlement, the Parties agreed to normalize this account on a going forward basis and concur with the adjustment of $1,788. The retail allocated amount is $1,688.

<u>Adjustment #7 – Annualize Insurance Expense</u> - The Parties agreed to increase insurance expenses to annualize the most recent premiums. ORS verified the March 2007 annualized insurance premiums of $8,425 and the per book amount of $7,879. ORS sampled insurance policies for accuracy of the monthly accrual amounts and found no exceptions. The insurance premium increase to O&M expenses of $546 was agreed upon by the Parties. The retail allocated amount is $526.

<u>Adjustment #8 – Annualize VC Summer Nuclear Plant Outage Accrual</u> – Per settlement, the Parties agreed to reflect an increase in expenses related to the VC Summer Nuclear Plant outage accrual. The adjustment of $963 was based on the budgeted amounts for the next refueling. The refueling cycles occur every 18 months and the next scheduled refueling (Cycle 17) will occur in April 2008. SCE&G has two-thirds (2/3) ownership and Santee Cooper, the state-owned electric and water utility, has one-third (1/3) ownership in the VC Summer nuclear facility and therefore costs are allocated accordingly. ORS's Electric Department verified and the Parties agreed that costs of $28,625 are appropriate for computation of the refueling Cycle 17 accrual. The adjustment amount is computed using the budgeted amount of

$28,625 divided by 18 months per refueling cycle for a monthly accrual of $1,590. This amount is annualized for a total of $19,083 (computed using exact monthly accrual) less the test year total of $17,639 for an amount of $1,444. SCE&G's two-thirds (2/3) allocation is applied to this amount for a total adjustment of $963, per the Settlement Agreement. The retail allocated amount is $909. In addition to this adjustment, the Parties agreed to a reduction to working capital to reflect customer-supplied funds provided in advance of the refueling cycle (Adj. #45).

Adjustment #9 – Remove Emergency Feedwater and Application Specific Integrated Circuit (ASIC) Cards – Per settlement, an adjustment was made to reduce O & M expenses for the VC Summer Emergency Feedwater and ASIC cards write-off since these expenses are non-recurring. These projects were no longer beneficial to pursue and therefore a related expense was recorded in the test period. ORS verified the per book amounts to cancelled work orders. The Parties concur with the adjustment to remove ($2,008) from operating expenses. The retail allocated amount is ($1,897). In addition, a corresponding adjustment is made to payroll taxes in Adjustment #23.

Adjustment #10 – Postage Increase - The Parties agreed to reflect an increase in O & M expenses related to increased postage rates. For March 2007, ORS verified 1.0905 mail pieces per customer multiplied by total electric customers of 507, resulting in 553 mail pieces for electric customers. The total monthly postage increase for electric customers amounted to $10, computed using 553 electric mail pieces and the postage increase of .019 (bulk mailing rate). ORS recomputed the annualized amount of $126 (computed using exact monthly increase) for the postage increase and the Parties concur with the adjustment. The retail allocated amount is $126.

Adjustment #11 – Eliminate Short-Term Capacity Purchases – The Parties agreed to decrease test year operating expenses for short-term contracts and other transactions to purchase capacity during the test year. The short-term capacity purchases were incurred due to the Williams Station outage and the Jasper Plant power reduction. ORS verified the short-term purchases to contracts from Progress Energy Carolinas, Inc. and Dynegy Marketing, Inc., as well as purchased power transactions reports for Southern Company Services. All amounts were verified to the Company's books and records and these expenses were removed to normalize test year expenses. Per the Settlement, the Parties agreed to remove ($1,967). The retail allocated amount is ($1,857).

Adjustment # 12 – Remove Expenses – An adjustment to decrease O&M Expenses for certain items was agreed upon by the Parties, per settlement. These items included donations, employee newsletter expenses, nonallowable membership dues, lobbying expenses, service awards, institutional advertising, gifts and flowers, sponsorships, ½ Chamber of Commerce dues, and other miscellaneous items. The Parties agreed to remove ($1,454) from operating expenses. The retail allocated amount is ($1,399).

Adjustment #13 – Legal Fees – The Parties agreed to an adjustment to decrease O&M Expenses for certain legal fees of ($721). These expenses included legal fees related to a FERC investigation and expenses related to donated property and other expenses. The retail allocated amount is ($694).

Adjustment #14 – Removed Abandoned Projects – The Parties agreed to remove abandoned projects booked to operating expenses. ORS verified the per book amounts to cancelled work orders. The abandoned projects included carbon monitors, a cooling tower emergency make-up line, dust collector bags and costs associated with overhead lines. Per the settlement, ($230) was removed from operating expenses. The retail allocated amount is ($217).

Depreciation and Amortization Expense

Adjustment #15 – Employee Clubs Depreciation Expense – Per settlement, the Parties agreed to remove depreciation expense related to Employee Clubs owned by the Company. ORS recomputed the depreciation expenses and verified the employee club amounts to the Company's books and records. The Parties concur with the adjustment of ($705). The retail allocated amount is ($679).

Adjustment #16 – Recognize Property Additions Depreciation Expense – An adjustment to add depreciation expenses for plant additions completed in April 2007 was agreed upon per settlement. ORS verified construction projects completed which included Wateree Closed Cycle Cooling Towers ($37,495), Parr Automatic Drag Rake ($1,601), and Other Distribution Work Orders ($3,574) totaling $42,670. ORS recomputed the depreciation expense using the approved depreciation rates. The Parties agree on the depreciation expense adjustment of $1,915. The retail allocated amount is $1,813.

Adjustment #17 – Automated Meter Readers ("AMRs") – Depreciation Expense – The Parties consent to an increase to depreciation expense to incorporate new depreciation rates for AMRs based on a depreciation study. ORS verified the per book depreciable balance of $108,255 for electric meters. The current depreciation rate of 1.83% and the proposed rate of 2.46% were verified by ORS's Electric

Department. ORS's Electric Department examined and the Parties agreed with a depreciation study supporting the new rate of 2.46%. The depreciation expense using the current rate was $1,981 and using the new rate an amount of $2,663 was computed resulting in an agreed upon adjustment of $682. The retail allocated amount is $682.

Adjustment #18 – To Annualize Depreciation Expense - The Parties agreed to annualize depreciation expense using rates approved in Docket No. 2004-178-E, Order No. 2005-2. ORS verified the depreciable plant balances as of March 31, 2007 and plant additions and retirements and applied the approved depreciation rates. Per settlement, the adjustment of $12,666 was made. The retail allocated amount is $12,225.

Adjustment # 19 – Purchased Power Non-Fuel Amortization - An adjustment is made, per settlement, to decrease amortization expense related to the unrecovered non-fuel component of purchased power from Docket No. 2004-178-E, Order No. 2005-2. In this order, an adjustment was made to recover non-fuel costs of $25,618 over a three-year period for an amortization amount of ($8,539). The retail allocated amount is ($8,539). The Company was authorized to recover these costs in a future period and therefore an adjustment was made in the last rate case proceeding. The amortization, which began in January 2005, ends in December 2007 and therefore the Parties agreed that the amortization be removed from the cost of service on a going forward basis.

Taxes Other Than Income

Adjustment #20 – Payroll Taxes Associated with Payroll Increase – Per settlement, an adjustment is made to FICA taxes associated with the payroll expense. ORS verified the payroll tax increase and adjusted the expenses for employees earning over the social security maximum of $97,500 per year, resulting in a reduction of $40 to the proposed adjustment. The Parties agree to an adjustment of $266. The retail allocated amount is $256.

Adjustment #21 – Payroll Taxes for Employee, Short-Term, and Long-Term Bonuses – The Parties agreed to remove 50% of the payroll taxes accrued for electric bonuses. ORS verified the per book payroll taxes accrued of $333 for electric bonuses and Parties concur with the adjustment of ($166) to remove 50% for payroll taxes so that taxes are shared between the stockholders and ratepayers. The retail allocation amount is ($160).

Adjustment #22 – Property Taxes – Per settlement, an adjustment is made to annualize the impact on the Company's property taxes by applying the average millage rate to additions to plant in service. ORS verified and recomputed property taxes based on net plant in service which did not include employee clubs. ORS verified annualized property tax expense of $102,185 and per book taxes of $96,774. The Parties agreed to the adjustment of $5,411. The retail allocated amount is $5,209.

Adjustment #23 – VCS Emergency Feedwater & ASIC Cards Write-Off – An adjustment is made, per settlement, to decrease payroll tax expense related to these write-offs since they are non-recurring. ORS verified the payroll tax amount and the Parties concur with the adjustment of ($5). The retail allocated amount is ($5).

State Income Taxes

Adjustment #24 – Wetland Accrual - The Parties agreed to decrease state tax expenses by ($17) to reclass the wetland accrual below-the-line. The retail allocated amount is ($17).

Adjustment #25 – State Income Taxes – The Parties agreed on the adjustment to compute state income taxes (5%) for the settlement accounting and pro forma adjustments for ($270). The retail allocated amount for state income taxes is ($251). See Settlement Audit Exhibit SGS-3.

Adjustment #26 – State Tax Effect of Annualized Interest – The Parties agreed on the adjustment which calculates the changes in state income taxes (5%) for the pro forma rate base adjustments. In addition, the adjustment, per settlement, includes the impact on state income taxes of interest expense associated with the planned $275 million debt issuance in 2008. This interest expense of $9,428 was computed by taking the difference between per book interest expense of $105,327 and interest expense of $114,755 after the effects of the $275 million planned debt issuance. The interest expense was computed as follows: 1) the per regulatory books long-term debt portion of rate base of $4,161,728, the capital ratio of 40.82% and the embedded cost rate of 6.20%, without the effects of $275 million, results in an interest expense of $105,327. 2) the per regulatory books long-term debt portion of rate base of $4,161,728, the capital ratio of 44.26% and the embedded cost rate of 6.23%, with the effects of $275 million, results in an interest expense of $114,755.

Per settlement, the total state tax effect of annualized interest, computed to be ($395). The retail allocated adjustment is ($378). See Settlement Audit Exhibit SGS-3-1.

Federal Income Taxes

Adjustment #27 – Wetland Accrual - The Parties agreed to decrease federal tax expenses by ($114) to reclass the wetland accrual below-the-line. The retail allocated amount is ($109).

Adjustment #28 – Federal Income Taxes – Per settlement, an adjustment was made to compute federal income taxes (35%) for the settlement accounting and pro forma adjustments for ($1,797). The retail allocated amount for federal income taxes is ($1,671). See Settlement Audit Exhibit SGS-3.

Adjustment #29 – Federal Tax Effect of Annualized Interest – This adjustment calculates the changes in federal income taxes (35%) for pro forma rate base settlement adjustments. In addition, the adjustment includes the impact on federal income taxes of interest expense associated with the planned $275 million debt issuance in 2008. This amount is computed in the same manner as stated in Adjustment # 26 for state income taxes. The agreed upon amount computed to be ($2,629). The retail allocated adjustment is ($2,519). See Settlement Audit Exhibit SGS-3-1.

Customer Growth

Adjustment #30 - Customer Growth – All Parties, per settlement, concur with the Customer Growth for changes in the Operating Return. ORS's Electric Department verified the following Customer Growth Factors: .010761 for Total electric regulatory per books, .010748 for total electric after settlement accounting and pro forma adjustments, and .011006 for retail electric per books, after settlement accounting and pro forma adjustments and after the settlement proposed increase. The Parties agree on an adjustment of ($6). The retail allocated amount is ($1).

Interest on Customer Deposits

Adjustment #31 – Annualize Interest on Customer Deposits – An adjustment was agreed upon by the Parties to annualize the interest on customers' deposits using the Commission approved interest rate of 3.5% and the year-end customer deposits of $32,980 for total interest on customer deposits of $1,154. The electric portion of the deposits was $908 and the net of tax amount was $561. ORS verified the per book amount of $795 and the net of tax amount of $491. The settlement adjustment, net of taxes, amounted to ($70). The retail allocated amount is ($70).

Plant in Service

Adjustment #32 – Employee Clubs – Per settlement, the Parties agreed to remove ($4,812) for plant in service related to the Employee Clubs owned by the Company. The retail allocated amount is ($4,632). ORS verified plant in service amounts to the Company's books and records.

Adjustment #33 - Property Retirements - The Parties agreed to reduce the balance in the Company's Plant in Service Account by ($7,544) to reflect pro forma retirements for Steam Production, Nuclear Production, Transmission, Distribution, General, and Common Plant as of March 31, 2007. The retail allocated amount is ($7,229). ORS verified these amounts to the Company's books and records.

Adjustment # 34 – Property Additions – An adjustment is made, per settlement, to increase plant in service for property additions made as of April 30, 2007. These additions included plant in service for Steam Production, Hydro Production, and Distribution. ORS verified the property additions to the Company's books and records and the Parties agreed with the adjustment totaling $42,671 since these are known and measurable changes. The retail allocated amount is $40,494. In relation to this adjustment and other plant additions, these amounts are being transferred from Construction Work in Progress ("CWIP") and the remaining CWIP balance is included in rate base. The Parties agreed that the Company not be allowed to accrue Allowance for Funds Used During Construction ("AFUDC") on the remaining CWIP balance since the Company will now earn a return on the test year amount included in rate base.

Adjustment #35 – Additional Construction Work In Progress - The Parties agreed to increase the Completed Construction Not Classified ("CCNC") plant in service account. ORS verified computer software and fleet projects to the Company's books and records. The Parties concur with the adjustment of $5,795 to increase CCNC. The retail allocated amount is $5,600.

Accumulated Depreciation

Adjustment # 36 – Employee Clubs – An adjustment is made, per settlement, to remove accumulated depreciation related to the employee clubs owned by the Company. ORS verified amounts to the Company's books and records. The Parties concur with the adjustment of ($1,147). The retail allocated amount is ($1,104).

Adjustment #37 - Property Retirements - The Parties consented to reduce the accumulated depreciation to reflect pro forma retirements for Steam Production, Nuclear Production, Transmission, Distribution, General, and Common Plant as of March 31, 2007. ORS verified the amounts to the Company's books and records and the Parties agreed with the adjustment of ($7,544). The retail allocated amount is ($7,229).

Adjustment # 38 – Property Additions – Per settlement, an adjustment was made to increase accumulated depreciation for property additions made as of April 30, 2007. These additions include plant in service for Steam Production, Hydro Production, and Distribution. ORS verified the property additions to the Company plant records and the Parties concur with the adjustment of $1,915. The retail allocated amount is $1,813.

Adjustment #39 – Automated Meter Readers ("AMRs") – The Parties agreed to the increase for accumulated depreciation expense (Adj. #17) associated with a new rate for AMRs. The new rate was based on a depreciation study verified by the ORS Electric Department and agreed upon by all Parties. The settlement adjustment amounted to $682. The retail allocated amount is $682.

Adjustment #40 – Annualized Depreciation – Per settlement, an adjustment was made to accumulated depreciation for annualized depreciation expense (Adj. #18). The Parties concur with the adjustment of $12,666. The retail allocated amount is $12,225.

Construction Work In Progress ("CWIP")

Adjustment #41 – CWIP Closed to Plant – The Parties agreed to remove from CWIP amounts for plant additions for Steam Production, Hydro Production, and Distribution as of the end of the test year. ORS verified the property additions removed from CWIP and the Parties concur with the adjustment of ($41,937). The retail allocated amount is ($39,804).

Adjustment #42 – CWIP Associated with New Nuclear Plant – Per settlement, the Parties agreed to remove costs associated with construction of new nuclear plants. In accordance with the new Base Load Review Act, these costs will be removed from cost of service. ORS verified the cost, for the nuclear study, to the Company's books and records and the Parties concur with the adjustment of ($10,252). The retail allocated amount is ($9,681).

Adjustment # 43 - Additional Construction Work In Progress - The Parties agreed to remove ($5,795) from CWIP. The retail allocated amount is ($5,600). ORS verified this amount for computer software and fleet projects to the Company's books and records.

Deferred Debits and Credits

Adjustment # 44 – OPEBs Unfunded Liability – Per settlement, an adjustment is made to reduce the unfunded liability for the OPEBs obligation. This obligation represents the future liability for OPEBs to Company employees. The amounts are not specifically invested for OPEBs (unfunded) and are therefore subtracted from the Company's rate base since the Company has use of these funds. ORS verified the OPEBs expense adjustment of ($56) (Adj. #3B), net of income taxes of $21, for a settlement adjustment of ($35). The Parties concur with the adjustment which shows a "reduction" to the unfunded liability of $35. The retail allocated amount is $35.

Working Capital Investment

Adjustment # 45 – Adjust Working Capital – The Parties agreed to adjust working cash by ($543) for the effect of the settlement accounting and pro forma adjustments using the working cash allowance of 12.5% or 45 days. In addition, the Parties agreed upon the following:

(1) Increase the amount of Customer Deposits removed by the annualized amount of ($113) which is the amount of customer deposits before taxes ($908 - $795). See Adjustment #31. The retail allocated amount is ($107).

(2) Remove ($5,892) from working capital for funds collected in advance of the next nuclear refueling. This adjustment was computed using the total budgeted expenses for the next refueling, Cycle 17, of $28,625. This amount is averaged over the period resulting in a total of $14,313 ($28,625/2). SCE&G's expense is 2/3 of this amount or ($9,542). The expense was reduced for state taxes of 5% and federal taxes of 35% which the company has to pay on this amount. The net result, per settlement, was a working capital reduction of ($5,892). The retail allocated amount is ($5,564).

(3) Remove unclaimed funds of ($131) from working capital since the Company has use of these funds until escheated to the state. The retail allocated amount is ($124).

The total adjustment, as agreed upon, for working capital amounted to ($6,679). The retail allocated amount is ($6,308). See Settlement Audit Exhibit SGS-5.

Accumulated Deferred Income Taxes ("ADIT")

Adjustment #46 – Adjust ADIT – Per settlement, the Parties agreed to remove additional accumulated deferred income taxes from rate base. ORS examined ADIT assets and liabilities and the Parties agreed that several accounts should be removed for ratemaking purposes. The net effect was an agreed upon adjustment to remove from rate base additional ADIT of ($20,161). The retail allocated amount is ($19,925).

Operating Revenues - Retail Operations

Adjustment # 47 – Revenue Increase - The Parties agreed to adjust operating revenues by $76,924 to reflect the proposed settlement increase.

Taxes Other Than Income

Adjustment #48 – Gross Receipts Taxes - The Parties agreed to adjust gross receipts taxes by $358 for the effects of the proposed settlement increase.

State Income Taxes

Adjustment #49 – State Income Taxes – This adjustment computes state income taxes at a rate of 5% for the proposed settlement increase resulting in as adjustment of $3,828.

Federal Income Taxes

Adjustment #50 – Federal Income Taxes – This adjustment computes federal income taxes at a rate of 35% for the proposed settlement increase resulting in an adjustment of $25,458.

Customer Growth

Adjustment #51 - Customer Growth – This adjustment computes the Customer Growth associated with the proposed settlement increase using a growth factor of .011006 for a Settlement adjustment of $520.

Q. WOULD YOU PLEASE DESCRIBE THE REMAINING AUDIT EXHIBITS?

A. Yes. Settlement Audit Exhibit SGS-3 shows the Calculation of Income Taxes. Settlement Audit Exhibit SGS-3-1 shows the Calculation of Annualized Interest associated with the accounting and pro forma adjustments. Settlement Audit Exhibit SGS-4 provides a schedule of deferred debits and credits that are removed from rate base. Settlement Audit Exhibit SGS-5 shows the Working Capital adjustment to the rate base. Settlement Audit Exhibit SGS-6 shows the Weighted Cost of Capital for Retail Electric Operations.

Q. DOES THIS CONCLUDE YOUR SETTLEMENT TESTIMONY?

A. Yes, it does.

REPORT OF THE AUDIT DEPARTMENT

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2007-229-E

SOUTH CAROLINA ELECTRIC & GAS COMPANY

REPORT OF THE AUDIT DEPARTMENT

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2007-229-E

SOUTH CAROLINA ELECTRIC & GAS COMPANY

INDEX

REPORT OF THE AUDIT DEPARTMENT

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2007-229-E

SOUTH CAROLINA ELECTRIC & GAS COMPANY

SYNOPSIS

Total Operating Revenues - Retail

Proposed Increase – Per Company's Application	$ 118,088
Proposed Settlement Increase	$ 76,924
After Proposed Settlement Increase	$1,928,569

Rate of Return on Rate Base – Per Settlement

Total Electric	
Per Books	7.19%
After Settlement Accounting and Pro Forma Adjustments	7.28%
Retail Electric	
Per Books	7.31%
After Settlement Accounting and Pro Forma Adjustments	7.41%
After Proposed Settlement Increase	8.62%

Return on Common Equity – Per Settlement

Retail Electric	
Per Books	8.25%
After Settlement Accounting and Pro Forma Adjustments	8.43%
After Proposed Settlement Increase	10.70%

REPORT OF THE AUDIT DEPARTMENT

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2007-229-E

SOUTH CAROLINA ELECTRIC AND GAS COMPANY

ANALYSIS

The South Carolina Office of Regulatory Staff ("ORS") Audit Department conducted an examination of the books and records of South Carolina Electric and Gas Company ("SCE&G", "the Company" or "Applicant") relative to its application to adjust and increase its retail electric rates as shown in Docket No. 2007-229-E. The examination period covered operating results for the test year ending March 31, 2007, and any applicable known and measurable changes to the test year. The Parties in this docket have reached a Settlement Agreement which is reflected in the analysis.

South Carolina Electric and Gas Company is a South Carolina corporation operating as an electric utility in 24 counties in the central and southern areas of the state. The Company furnishes generation, transmission, distribution, and sale of electricity to the public for compensation. ORS respectfully submits the results of its examination as follows:

1. SCE&G filed an application on June 15, 2007 for approval of a general increase in retail electric rates for services provided to its customers.
2. In this application, SCE&G requested a revenue increase of $118,088 for its Retail Operations, which equated to a Rate of Return of 9.18% (Per Company) on Rate Base after the requested increase.
3. SCE&G's current rates were established by the South Carolina Public Service Commission in the Company's last rate case, Docket No. 2004-178-E, Order No.

2005-2, dated January 6, 2005.

The following exhibits are related to SCE&G's application and the Settlement Agreement increase:

SETTLEMENT AUDIT EXHIBIT SGS-1: OPERATING EXPERIENCE, RATE BASE AND RATE OF RETURN

Shown in this exhibit are SCE&G's operating experience, rate base, and rate of return for the test year ended March 31, 2007. The exhibit's format is designed to reflect Per Books figures and settlement accounting & pro forma adjustments agree upon by the Parties.

As per Column (1), using Total Electric Operations per company's books for the test year ended March 31, 2007, the net income for return of $299,408, and total rate base of $4,161,728, the computed rate of return was 7.19%. Accounting and pro forma adjustments, per settlement, were made to normalize the operating experience in column (2) for Total Electric Operations. Column (3) shows the settlement accounting and pro forma adjustments for Total Electric Operations which result in a rate of return of 7.28%.

Column (4) presents the Company's allocation of the Total Electric booked amounts to Retail Operations. Using Retail Operations, total net income for return of $292,321, and total rate base of $3,997,379, the computed rate of return was 7.31%. The settlement proposed accounting and pro forma adjustments were allocated to the Company's Retail Operations in column (5). Column (6) presents Retail Operations amounts after the accounting and pro forma adjustments, per settlement, which reflects a net income for return of $292,169, total rate base of $3,943,942 and a resulting rate of return of 7.41%. The proposed settlement increase of $76,924 is presented in column (7) along with the related adjustments for taxes and customer growth. Lastly, column (8) presents after the proposed settlement increase, which reflects net income for return of

$339,969, rate base of $3,943,942, and a resulting rate of return of 8.62%.

SETTLEMENT AUDIT EXHIBIT SGS-2: EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS

A brief explanation of each accounting and pro forma adjustment on Settlement Audit Exhibit SGS-1 is shown in this exhibit. The adjustments were separated between 'SCE&G Total Electric', 'Settlement Total Electric', and 'Settlement Retail Operations.' This exhibit shows the settlement accounting and pro forma adjustments made to normalize SCE&G's operations and settlement increase adjustments. For comparative purposes, adjustments proposed by SCE&G in its application and adjustments agreed to in the settlement are both presented in this exhibit.

SETTLEMENT AUDIT EXHIBIT SGS-3: CALCULATION OF INCOME TAXES

Per the settlement, this exhibit shows the computations of state and federal income taxes based on taxable income after the settlement accounting and pro forma adjustments and the settlement increase. The Parties used the state income tax rate of 5% and a federal income tax rate of 35%.

SETTLEMENT AUDIT EXHIBIT SGS-3-1: CALCULATION OF ANNUALIZED INTEREST

Shown in this exhibit are the computations of annualized interest based on the rate base accounting and pro forma adjustments per settlement. In addition, the exhibit shows the tax effect of additional interest for the planned $275 million debt issuance in 2008.

SETTLEMENT AUDIT EXHIBIT SGS-4: DEFERRED DEBITS/CREDITS

Shown in this exhibit are the deferred debits and credits which are removed from rate base, per settlement. In addition, the exhibit shows the settlement adjustment to the Other Post Employment Benefits and the amounts allocated to retail operations.

SETTLEMENT AUDIT EXHIBIT SGS-5: WORKING CAPITAL INVESTMENT

Shown in this exhibit is the computation of the working capital investment based on settlement accounting and pro forma adjustments. The Parties used a forty-five (45) day cash working capital allowance for the utility to bill and collect funds from its customers. In addition, the exhibit shows the various settlement adjustments to reduce working capital for customer deposits, nuclear refueling cycle advanced funds, and unclaimed funds.

SETTLEMENT AUDIT EXHIBIT SGS-6: WEIGHTED COST OF CAPITAL

Shown in this exhibit are the computations of cost of capital for long-term debt, preferred stock and common equity per settlement. The rate base, as shown on Settlement Audit Exhibit SGS-1, is allocated among various classes of debt and equity, excluding short-term debt, according to their respective ratios in accordance with the Company's capital structure. The exhibit shows the computation for the resulting return on equity and the overall cost of capital. The overall cost equals the rate of return on the rate base as shown on Settlement Audit Exhibit SGS-1.

Settlement Audit Exhibit SGS-1

South Carolina Electric & Gas Company
Operating Experience, Rate Base and Rate of Return
Total and Retail Electric
For the Test Year Ended March 31, 2007
Docket No. 2007-229-E

(000's Omitted)

Line No.	Description	TOTAL ELECTRIC (1) Per Regulatory Books	(2) Settlement Accounting & Pro Forma Adjustments	(3) After Settlement Accounting & Pro Forma Adjustments	RETAIL ELECTRIC (4) Retail Per Books	(5) Settlement Accounting & Pro Forma Adjustments	(6) After Settlement Accounting & Pro Forma Adjustments	(7) Settlement Proposed Increase	(8) After Settlement Proposed Increase
1	**Operating Revenues**	$ 1,931,616	(1,000) (A)	1,930,616	1,852,590	(945) (A)	1,851,645	76,924 (O)	1,928,569
2	**Operating Expenses:**								
3	O&M Expenses - Fuel	673,074	(809) (B)	672,265	635,666	(765) (B)	634,901	0	634,901
4	O&M Expenses - Other	469,110	(6,312) (C)	462,798	450,280	(5,956) (C)	444,324	0	444,324
5	Depreciation & Amort. Expenses	231,596	6,019 (D)	237,615	222,244	5,502 (D)	227,746	0	227,746
6	Taxes Other Than Income	122,222	5,506 (E)	127,728	117,868	5,300 (E)	123,168	358 (P)	123,526
7	Total Income Taxes	138,908	(5,222) (F)	133,686	136,908	(4,945) (F)	131,963	29,286 (Q)	161,249
8	**Total Operating Expenses**	1,634,910	(818)	1,634,092	1,562,966	(864)	1,562,102	29,644	1,591,746
9	Operating Return	296,706	(182)	296,524	289,624	(81)	289,543	47,280	336,823
10	Customer Growth	3,193	(6) (G)	3,187	3,188	(1) (G)	3,187	520 (R)	3,707
11	Int.on Cust. Deposits (Net of Taxes)	(491)	(70) (H)	(561)	(491)	(70) (H)	(561)	0	(561)
12	**Net Income for Return**	299,408	(258)	299,150	292,321	(152)	292,169	47,800	339,969
13	**Rate Base:**								
14	Gross Plant in Service	6,622,656	36,110 (I)	6,658,766	6,374,275	34,233 (I)	6,408,508	0	6,408,508
15	Less: Reserve for Depreciation	2,266,787	6,572 (J)	2,273,359	2,181,180	6,387 (J)	2,187,567	0	2,187,567
16	Net Plant in Service	4,355,869	29,538	4,385,407	4,193,095	27,846	4,220,941	0	4,220,941
17	Construction Work in Progress	250,786	(57,984) (K)	192,802	239,842	(55,085) (K)	184,757	0	184,757
18	Deferred Debits/Credits	(109,984)	35 (L)	(109,949)	(106,872)	35 (L)	(106,837)	0	(106,837)
19	Total Working Capital	29,936	(6,679) (M)	23,257	25,726	(6,308) (M)	19,418	0	19,418
20	Materials & Supplies	234,438	0	234,438	222,852	0	222,852	0	222,852
21	Accumulated Deferred Income Taxes	(599,317)	(20,161) (N)	(619,478)	(577,264)	(19,925) (N)	(597,189)	0	(597,189)
22	**Total Rate Base**	$ 4,161,728	(55,251)	4,106,477	3,997,379	(53,437)	3,943,942	0	3,943,942
23	**Rate of Return**	7.19%		7.28%	7.31%		7.41%		8.62%
24	**Return on Common Equity**				8.25%		8.43%		10.70%

South Carolina Electric & Gas Company
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended March 31, 2007
Docket No. 2007-229-E
(000's Omitted)

Adj.# Per App.	Adj.# Per ORS		Description		SCE&G Total Electric	Settlement Total Electric	Settlement Retail Operations
	(A)		**Operating Revenues**				
11	1		To annualize Morgan Stanley contract.	$	(1,000)	(1,000)	(945)
			Total Operating Revenues	$	(1,000)	(1,000)	(945)
	(B & C)		**Operating and Maintenance Expense - Fuel & Other**				
1A	2	A	To annualize wages and benefits.	$	4,313	4,313	4,166
1B		B	To remove 50% of employee & officer bonuses.		(1,782)	(1,782)	(1,715)
2A	3	A	To annualize pension income.		(1,471)	(1,471)	(1,416)
2B		B	To annualize other post employment benefits		(56)	(56)	(54)
3	4		To remove operating expenses related to employee clubs.		(348)	(348)	(335)
9	5		To remove ammonia and lime costs which will be recovered in the fuel clause in accordance with the new base load review legislation. O & M Fuel is adjusted for Williams Station costs of $809 and O & M Other is adjusted for the remaining $4,011 for a total of $4,820.		(4,820)	(4,820)	(4,552)
10	6		To remove one-time credit for Federal Agency Fees for accrual true-up.		1,788	1,788	1,688
12	7		To annualize insurance expense using the most recent premium amounts.		546	546	526
13	8		To annualize VC Summer outage accrual using the amount for the next refueling Cycle 17. ORS proposes an associated adjustment to working capital for use of customer supplied funds before refueling cycle.		963	963	909
14	9		To remove Emergency Feedwater and ASIC Card write-off.		(2,008)	(2,008)	(1,897)
16	10		To increase postage expense for increased postage rate.		126	126	126
18	11		To remove expenses for short-term contracts and transactions for the purchase of capacity during the test year.		(1,967)	(1,967)	(1,857)
	12		To remove certain expenses for ratemaking purposes.		0	(1,454)	(1,399)
	13		To remove certain legal expenses.		0	(721)	(694)
	14		To remove abandoned projects.		0	(230)	(217)
			Total Operating and Maintenance Expenses	$	(4,716)	(7,121)	(6,721)
		(B)	**Total Operating and Maintenance Expense - Fuel**	$	(809)	(809)	(765)
		(C)	**Total Operating and Maintenance Expense - Other**		(3,907)	(6,312)	(5,956)

South Carolina Electric & Gas Company
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended March 31, 2007
Docket No. 2007-229-E
(000's Omitted)

Adj.# Per App.	Adj.# Per ORS	Description		SCE&G Total Electric	Settlement Total Electric	Settlement Retail Operations
	(D)	**Depreciation and Amortization Expense**				
3	15	To remove depreciation expense related to employee clubs.	$	(705)	(705)	(679)
5B	16	To recognize depreciation for plant additions.		1,915	1,915	1,813
7	17	To increase expenses for new rates for automated meters as determined per depreciation study.		682	682	682
8	18	To annualize depreciation expense.		12,666	12,666	12,225
17	19	To remove amortization expense for unrecovered non-fuel component of purchased power.		(8,539)	(8,539)	(8,539)
		Total Depreciation and Amortization Expense	$	6,019	6,019	5,502
	(E)	**Taxes Other Than Income**				
1A	20	To annualize payroll taxes for wages and benefits	$	306	266	256
1B	21	To remove 50% of payroll taxes related to employee & officer bonuses		(166)	(166)	(160)
4	22	To annualize property tax expense for pro forma plant additions.		5,411	5,411	5,209
14	23	To remove payroll tax expenses associated with Emergency Feedwater and ASIC card write-off.		(5)	(5)	(5)
		Total Taxes Other Than Income	$	5,546	5,506	5,300
	(F)	**State Income Taxes - Total**				
15	24	To reclassify taxes related to wetland accrual below-the-line.	$	(17)	(17)	(17)
	25	To adjust State Income Taxes. See Audit Exhibit SGS-3.		(391)	(270)	(251)
20	26	Tax Effect on Annualized Interest. See Audit Exhibit SGS-3.		(432)	(395)	(378)
		Total State Income Tax Adjustments	$	(840)	(682)	(646)
	(F)	**Federal Income Taxes - Total**				
15	27	To reclassify taxes related to wetland accrual below-the-line.	$	(114)	(114)	(109)
	28	To adjust Federal Income Taxes. See Audit Exhibit SGS-3.		(2,612)	(1,797)	(1,671)
20	29	To compute the tax effect on Annualized Interest. See Audit Exhibit SGS-3.		(2,876)	(2,629)	(2,519)
		Total Federal Income Tax Adjustments	$	(5,602)	(4,540)	(4,299)
	(F)	**Total Income Taxes**	$	(6,442)	(5,222)	(4,945)
	(G)	**Customer Growth**				
	30	To adjust customer growth for total and retail operations related to the accounting and pro forma adjustments.	$	(19)	(6)	(1)
		Total Customer Growth	$	(19)	(6)	(1)

South Carolina Electric & Gas Company
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended March 31, 2007
Docket No. 2007-229-E
(000's Omitted)

Adj.# Per App.	Adj.# Per ORS	Description	SCE&G Total Electric	Settlement Total Electric	Settlement Retail Operations
	(H)	**Interest on Customer Deposits**			
	31	To annualize interest on customer deposits (net of taxes).	$ 0	(70)	(70)
		Total Interest on Customer Deposits	$ 0	(70)	(70)
	Rate Base				
	(I)	**Plant in Service**			
3	32	To remove employee clubs	$ (4,812)	(4,812)	(4,632)
5A	33	To recognize property retirements	(7,544)	(7,544)	(7,229)
5B	34	To increase plant in service for property additions.	42,671	42,671	40,494
6	35	To increase plant in service for additional CWIP closed to plant.	5,795	5,795	5,600
		Total Plant in Service	$ 36,110	36,110	34,233
	(J)	**Accumulated Depreciation**			
3	36	To remove employee clubs.	$ (1,147)	(1,147)	(1,104)
5A	37	To recognize property retirements.	(7,544)	(7,544)	(7,229)
5B	38	To recognize property additions.	1,915	1,915	1,813
7	39	To recognize an increase in depreciation for automated meters.	682	682	682
8	40	To annualize depreciation expense.	12,666	12,666	12,225
		Total Accumulated Depreciation	$ 6,572	6,572	6,387
	(K)	**Construction Work in Progress (CWIP)**			
5B	41	To decrease CWIP for property additions closed to plant in service.	$ (41,937)	(41,937)	(39,804)
5C	42	To remove CWIP associated with new nuclear generation. Pursuant to the new Base Load Review Act, this amount is being deferred.	(10,252)	(10,252)	(9,681)
6	43	To adjust for additional CWIP closed to plant in service.	(5,795)	(5,795)	(5,600)
		Total Construction Work in Progress (CWIP)	$ (57,984)	(57,984)	(55,085)
	(L)	**Deferred Debits/Credits**			
2B	44	To adjust other post employment benefits (OPEBs) liability for accrued expenses. See Audit Exhibit SGS-4.	$ 35	35	35
		Total Deferred Debits/Credits	$ 35	35	35
	(M)	**Working Capital**			
19	45	To adjust cash working capital - See Audit Exhibit SGS-5.	$ (243)	(6,679)	(6,308)
		Total Working Capital	$ (243)	(6,679)	(6,308)
	(N)	**Accumulated Deferred Income Taxes**			
	46	To adjust accumulated deferred income taxes for items which affect rate base.	0	(20,161)	(19,925)
		Total Accumulated Deferred Income Taxes	0	(20,161)	(19,925)

South Carolina Electric & Gas Company
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended March 31, 2007
Docket No. 2007-229-E
(000's Omitted)

Adj.# Per App.	Adj.# Per ORS	Description	Settlement Proposed Increase
	Per Settlement Propose Increase		
	(O)	**Operating Revenues for Proposed Increase**	
	47	To adjust revenues for the proposed increase	$ 76,924
		Total for Proposed Increase	$ 76,924
	(P)	**Taxes Other Than Income**	
	48	To adjust gross receipts tax for the proposed increase	$ 358
		Total Taxes Other Than Income	$ 358
	(Q)	**State Income Taxes for Proposed Increase**	
	49	To adjust state income taxes (rate of 5%) to reflect the impact of the proposed increase.	$ 3,828
		Total State Taxes for Proposed Increase	$ 3,828
	(Q)	**Federal Income Tax for Proposed Increase**	
	50	To adjust federal income taxes (rate of 35%) to reflect the impact of the proposed increase.	$ 25,458
		Total Federal Income Tax for Proposed Increase	$ 25,458
	(Q)	**Total Income Taxes**	$ 29,286
	(R)	**Customer Growth**	
	51	To adjust customer growth (.011006) for adjustments to operating revenues and expenses related to the proposed increase	$ 520
		Total Customer Growth for Proposed Increase	$ 520

South Carolina Electric & Gas Company
Calculation of State and Federal Income Taxes
For the Test Year Ended March 31, 2007
Docket No. 2007-229-E
(000's Omitted)

Adjustments #25, 26, 28 & 29 FOR SETTLEMENT ACCOUNTING AND PRO FORMA ADJUSTMENTS	As Adjusted Total	Retail Allocated Amount
Operating Revenues	$ (1,000)	$ (945)
Less:		
O&M Expenses - Fuel	(809)	(765)
O&M Expenses - Other	(6,312)	(5,956)
Dep. & Amort. Expenses	6,019	5,502
Taxes Other Than Income	5,506	5,300
Accounting and Pro forma Adjustment Total	(5,404)	(5,026)
State Taxes @ 5%	(270)	(251)
Tax Effect of Annualized Interest - See Audit Exh. SGS-3-1	(395)	(378)
Total State Taxes	(665)	(629)
Federal Taxable Income	(5,134)	(4,775)
Federal Taxes @ 35%	(1,797)	(1,671)
Tax Effect of Annualized Interest -See Audit Exh. SGS-3-1	(2,629)	(2,519)
Total Federal Taxes	$ (4,426)	$ (4,190)

Adjustments #49 & 50 FOR SETTLEMENT PROPOSED INCREASE ADJUSTMENTS	
Operating Revenues	$ 76,924
Less:	
O&M Expenses - Fuel	0
O&M Expenses - Other	0
Dep. & Amort. Expenses	0
Taxes Other Than Income	358
Accounting and Pro forma Adjustment Total	76,566
State Taxes @ 5%	3,828
Federal Taxable Income	72,738
Federal Taxes @ 35%	25,458
Total Taxes	$ 29,286

Settlement Audit Exhibit SGS - 3-1

South Carolina Electric & Gas Company
Calculation of Annualized Interest
For the Test Year Ended March 31, 2007
Docket No. 2007-229-E
(000's Omitted)

Total Company **Settlement Adjustments #26 & #29**	**Rate Base Adjustments**	**$275 M Projected Debt Capital Structure Change**	**Total Impact to State & Federal Taxes**
Gross Plant in Service	$ 36,110		
Reserve for Depreciation	(6,572)		
Construction Work in Progress	(57,984)		
Deferred Debits & Credits	35		
Total Working Capital	(6,679)		
Materials & Supplies	0		
Accum. Deferred Income Taxes	(20,161)		
Total Rate Base Adjustments	(55,251)		
Long-Term Debt Ratio	44.26%		
Total Debt	(24,454)		
Weighted Average Cost of Debt	6.23%		
Annualized Interest Impact	(1,523)	$ 9,428	
Settlement Adjustment to Income Taxes			
State Income Tax @ 5%	76	(471)	**$ (395)** *
Federal Income Tax @ 35%	506	(3,135)	**(2,629)** *
Total Income Tax Effect	582	(3,606)	**(3,024)**
Net Impact	$ (941)	$ 5,822	$ 4,881

Retail **Settlement Adjustments #26 & #29**	**Rate Base Adjustments**	**$275 M Projected Debt Capital Structure Change**	**Total Impact to State & Federal Taxes**
Gross Plant in Service	$ 34,233		
Reserve for Depreciation	(6,387)		
Construction Work in Progress	(55,085)		
Deferred Debits & Credits	35		
Total Working Capital	(6,308)		
Materials & Supplies	0		
Accum. Deferred Income Taxes	(19,925)		
Total Rate Base Adjustments	(53,437)		
Long-Term Debt Ratio	44.26%		
Total Debt	(23,651)		
Weighted Average Cost of Debt	6.23%		
Annualized Interest Impact	(1,473)	$ 9,049	
Settlement Adjustment to Income Taxes			
State Income Tax @ 5%	74	(452)	**$ (378)** *
Federal Income Tax @ 35%	490	(3,009)	**(2,519)** *
Total Income Tax Effect	564	(3,461)	**(2,897)**
Net Impact	$ (909)	$ 5,588	$ 4,679

*** See Audit Exhibit SGS - 3**

South Carolina Electric & Gas Company
Deferred Debits/Credits
Test Year Ended March 31, 2007
Docket No. 2007-229-E
(000's Omitted)

	Regulatory Per Books	Settlement Adjustments	After Settlement Adjustments	Allocated to Retail
Other Post Employment Benefits	$ (80,844)	$ 35	$ (80,809)	$ (77,750)
Deferred Environmental Costs	(174)	0	(174)	(167)
Storm Damage Reserve	(28,162)	0	(28,162)	(28,162)
Major Maintenance Accrual	(804)	0	(804)	(759)
Total - Per Settlement	**$ (109,984)**	**$ 35**	**$ (109,949)**	**$ (106,838)**

South Carolina Electric & Gas Company
Working Capital Investment
Test Year Ended March 31, 2007
Docket No. 2007-229-E
000's Omitted

	Total			Retail *		
	Regulatory Per Books	Settlement Adjustments	After Settlement Adjustments	Retail Per Books	Settlement Adjustments	After Settlement Adjustments
Operating & Maintenance Expenses	$ 1,142,184	$ (7,121)	$ 1,135,063			
Less: Purchased Power Exp. **	179,559	(2,776)	176,783			
Nuclear Fuel Expense	21,744	0	21,744			
	940,881	(4,345)	936,536			
1/8 of O&M Expenses (Less Fuel):	0.125	0.125	0.125			
Working Cash	117,610	(543)	117,067			
Prepayments	10,482	0	10,482			
Total Investor Advanced Funds	128,092	(543)	127,549			
Less: Customer Deposits	(26,342)	(113)	(26,455)			
Average Tax Accruals	(66,559)	0	(66,559)			
Injuries and Damages	(5,255)	0	(5,255)			
Nuclear Refueling Cycle	0	(5,892)	(5,892)			
Unclaimed Funds	0	(131)	(131)			
Total Working Capital - Per Settlement	**$ 29,936**	**$ (6,679)**	**$ 23,257**	**$ 25,726**	**$ (6,308)**	**$ 19,418**

* The Retail allocations were agreed to by the Parties of the Settlement Agreement.

** Includes the removal of Genco Fuel since working capital is included on the Genco fuel invoices.

South Carolina Electric & Gas Company
Weighted Cost of Capital
Retail Electric Operations
For the Test Year Ended March 31, 2007
Docket No. 2007-229-E
(000's Omitted)

			Retail Per Books				After Settlement Adjustments				After Proposed Settlement Increase			
Description	Capital Structure	Ratio	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt*	$ 2,096,488	44.26%	$ 1,769,240	6.23%	2.76%	$ 110,224	$ 1,745,589	6.23%	2.76%	$ 108,750	$ 1,745,589	6.23%	2.76%	$ 108,750
Preferred Stock	114,559	2.42%	96,737	6.41%	0.16%	6,201	95,443	6.41%	0.16%	6,118	95,443	6.41%	0.16%	6,118
Common Equity	2,525,738	53.32%	2,131,402	8.25%	4.39%	175,896	2,102,910	8.43%	4.49%	177,301	2,102,910	10.70%	5.70%	225,101
Totals	$ 4,736,785	100.00%	$ 3,997,379		7.31%	$ 292,321	$ 3,943,942		7.41%	$ 292,169	$ 3,943,942		8.62%	$ 339,969

* Includes $275 million associated with the planned issuance of Long-Term Debt in 2008.